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Per email: generation_adequacy@ceer.eu

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**CEER's "Call for Evidence on Generation Adequacy Treatment in Electricity"
(# E10-PC-48)**

27 April 2010

Dear Ladies and Gentlemen, dear Mrs Geitona,

EnBW welcomes the opportunity to comment on CEER's "Call for evidence on Generation Adequacy Treatment in Electricity".

CEER rightly addresses the issue of generation adequacy and highlights the importance of integrated and undistorted markets. For us it is important that CEER deals with the subject since we think that this issue should be furthered on European level.

As generation adequacy might also be defined with reference to a small market with limited liquidity, we emphasize that it must be understood as the amount of generation necessary to meet demand in a substantial and liquid European cross-border market. Network constraints, however, also need to be taken into account as an adequate generation "volume" is insufficient to guarantee the connection to demand.

We generally agree with CEER's analysis and the emphasis on freely functioning liquid wholesale markets where prices can fully deploy their key function: being an indicator of scarcity and thus providing the needed incentives for investments. Therefore, it is vital that the price formation can work without any intervention. This also means that volatile and peaking prices are not a sign of market failure but rather the opposite.

Investing in generation assets may even be a "specific case" as we see very long investment cycles where regulatory volatility is counterproductive; i.e. stable framework conditions are important to ensure generation adequacy.

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EnBW understands that CEER's "Call for Evidence on Generation Adequacy Treatment in Electricity" is based on supply security and supply solidarity considerations.

Question 01: What are the key elements for ensuring generation adequacy in the competitive electricity market in EU MS and the EU as a whole?

EnBW believes that the key element for ensuring generation adequacy is the fact that investors must have confidence in the reliability and functionality of framework conditions in which markets can evolve freely.

Certainly, generation adequacy is also directly linked to system adequacy as connection between generation and demand. From a different perspective, it can also be said that the fluctuations of renewable energy sources become an extraordinary challenge for the whole energy supply chain and thus naturally also for the transmission and distribution networks, which have to provide reliable and high quality supply to the customer at all network levels; thus regulated network businesses also need investment incentives to improve and extend the existing transmission grid in order to accommodate the changing generation patterns and the increasing share of generation from RES, which is often feeding in far away from the actual demand. Additionally, if costs for necessary reinforcement of the transmissions and distribution grids as the result of connecting new generation cannot not be recovered properly or if the investment incentives are insufficient, generation adequacy is likely to be negatively affected.

Generally, a coordinated approach to generation and grid planning is helpful. Therefore, it is one key element for ensuring generation adequacy to obtain reliable information on available generation capacity for as long into the future as possible.

Currently, we observe a paradigm shift from "generation follows demand" towards "demand follows generation". Therefore customers also need to become involved in the load management as regards a more flexible and elastic demand side response. As regards the latter aspect, in order to successfully implement demand flexibility mechanisms, the customer should be the focus of regulatory efforts because the customer decides to buy smart meters, to behave energy efficiently and to consume less energy and/or to generate electricity from renewable energy sources (and feed into the networks). To ensure supply reliability, a well balanced mix of generation is required particularly in order to balance the system against the background of an ever increasing share of intermittent RES.

As regards smart meters or intelligent metering technologies, these would contribute to the coordination of energy production and consumption and hence greater ease of integrating distributed generation or gas production from renewable energy sources. In the context of the relevance of smart metering for generation adequacy, it needs to be emphasized that a liberalization of metering and metering service has yet to occur. Often, the introduction of intelligent metering technologies is the job of network operators alone and thus not competitive.

Question 02: Do you observe any barriers for investing in new generation capacity? If yes, please list and explain them.

In the current regulatory environment, EnBW observes framework conditions that cause uncertainty and thus hamper investment decisions. In its paper, CEER discusses a significant list of barriers to investment in new generation capacity which we can generally agree to. Thus, in our view, the most relevant elements that we observe as (potential) barriers are:

- unpredictable CO2 market parameters post 2012 and even more unclear post 2020;
- access to gas transport and storage capacities needs to be further improved;
- public resistance against new generation capacities, both fossil fuelled and renewables and against new transmission infrastructure;
- difficult and time-consuming permission procedures that are also exposed to unsteady political opinion-making.

As new generation often also needs connection to the transmission grid in order to deliver energy to the final customers we are concerned about obstacles new generation and infrastructure projects face during the permitting procedures resulting in severe delays or even the abandonment of such these projects.

While some of these factors are difficult to influence for politics and regulators, there still remains some work to be done with regard to market rules. Especially, price caps in order to restrict price spikes and remaining consumer price regulation hamper investments. We strongly believe that price signals must be unrestricted in order to allow markets to provide participants with correct scarcity signals. While price spikes provide a generation investment signal, negative prices also stimulate investments in flexible facilities as well as storage investments.

Question 03: In case of additional measures for ensuring generation adequacy, what would be the key issues to take into account?

EnBW believes that there still remain a lot of measures to be taken to improve the design of European electricity markets, in particular in the area of transparency, demand response measures and enhanced market integration. It is by no means clear that generation adequacy will be jeopardized in the mid-term as long as an undistorted and largely integrated pan-European energy only-market is in place. Consequently, additional measures should only be taken into account if an otherwise efficient energy-only market turns out to provide insufficient generation capacity or an inefficient geographic distribution of power plants.

Bearing this in mind, additional measures as outlined in section 4.2. of CEER's consultation paper (such as capacity mechanisms or locational signals) should not be excluded outright as long as it is ensured that these measures are non-discriminatory and comply with market mechanisms. Thus, we think that it may be worthwhile to further investigate workable capacity mechanisms allowing a market-

based remuneration and better predictability for suppliers offering reliable capacity. At the same time we would strongly like to emphasize that there are examples which clearly do not comply with these criteria such as lump sum capacity subsidies, which are not conducive to the development of an undistorted market, and locational signals based on a nodal pricing principle, which are detrimental to liquid markets and do not encourage generation investments as experience in the U.S. has shown. Against this background, a careful consideration of any such additional measures is important taking into account academic knowledge as well as existing practical experience.

EnBW hopes that its comments contribute some evidence to CEER's "Call for Evidence on Generation Adequacy Treatment in Electricity".

We remain at your disposal should you have any further enquiries.

Kind regards.

Yours sincerely

EnBW Energie Baden-Württemberg AG

i.A. Dr. Eckart Ehlers